

Funding of operations/Financial sustainability/Going concern

11. No significant financial or going concern difficulties were identified during our audit.

Qualitative aspects of accounting practices

12. As set out in accounting policy note 1 of the municipality's financial statements, the municipality has adopted the transitional provisions available in the Standards of GRAP.

Material losses/impairments

13. No losses/impairments were identified during the year under review.

Unauthorised/fruitless and wasteful/irregular expenditure

Fruitless and wasteful expenditure

14. As disclosed in note 34 to the financial statements, fruitless and wasteful expenditure in the amount of R45 398 was incurred, in the form of interest, penalties, bank charges and payments in court judgements.

Budgetary control

15. No material findings were identified during our audit.

Accounting discipline

16. No material findings were identified during our audit.

Financial indicators/ratios

17. No adverse financial indicators or ratios were identified during our audit.

Significant uncertainties

18. No material findings were identified during our audit.

Financial reporting systems

19. No material findings were identified during our audit.

Revision of the previously issued financial statements

20. The prior year's financial statements have not been amended and re-issued.

Accounting reforms

21. The municipality (low capacity) has adopted Standards of GRAP in the previous financial year. The challenges faced with the valuation/measurement of property, plant and equipment, investment properties, inventory, intangible assets and infrastructure assets still continue in the current year.

Material inconsistencies in other information included in the annual report

22. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Internal audit

23. Internal audit function did not develop a risk based audit plan and an internal audit programme nor was there evidence of quarterly reporting to the audit committee.

Audit committee

24. There was no evidence that the audit committee advised the municipality on matters of internal financial control and internal audit matters, risk management and other issues of governance nor did it review the annual financial statements submitted for audit.

Management of risk

25. The municipality did not undertake a risk assessment nor did it have a fraud prevention plan in place.

Prior year observations and recommendations addressed

26. Prior year findings and observations have not been adequately resolved.

Unavailability of key personnel

27. Key personnel were available throughout the audit.

Adequacy and competence of financial reporting personnel

28. Numerous errors were noted with regards to application of Standards of GRAP, thus indicating that financial personnel should undergo training in this respect.

Unavailability of expected information

29. Delays were experienced in the availability of expected information.

Late submission of financial statements

30. The financial statements were submitted on 31 August 2009.

Related parties

31. No material findings were identified during our audit.

Performance rewards

32. No material findings were identified during our audit.

Non-compliance with applicable legislation

Municipal Finance Management Act

33. The municipality did not have a listing nor invite prospective providers to apply for evaluation and listing as accredited providers.

Municipal Systems Act

34. Reports relating to oversight on the supply chain management process were not prepared nor were they made public.

SCOPA /Oversight resolutions

35. No resolutions were noted.

Key governance responsibilities

36. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Many of these have been addressed in detail above. The table below reflects how certain of the financial and governance matters as well as other matters included under the reporting on performance information below, will be reported in the auditor's report.

No.	Matter	Y	N
	Clear trail of supporting documentation that is easily available and provided in a timely manner		
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	<input type="checkbox"/>	<input type="checkbox"/>
	Quality of financial statements and related management information		
2.	The financial statements were not subject to any material amendments resulting from the audit.	<input type="checkbox"/>	<input type="checkbox"/>
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	<input type="checkbox"/>	<input type="checkbox"/>
	Timeliness of financial statements and management information		
4.	The annual financial statements were submitted for auditing as per the legislated deadlines, as set out in section 126 of the MFMA.	<input type="checkbox"/>	<input type="checkbox"/>
	Availability of key officials during audit		
5.	Key officials were available throughout the audit process.	<input type="checkbox"/>	<input type="checkbox"/>
	Development and compliance with risk management, effective internal control and governance practices		
6.	Audit committee		
	• The municipality had an audit committee in operation throughout the financial year.	<input type="checkbox"/>	<input type="checkbox"/>
	• The audit committee operates in accordance with approved, written terms of reference.	<input type="checkbox"/>	<input type="checkbox"/>
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	<input type="checkbox"/>	<input type="checkbox"/>
7.	Internal audit		
	• The municipality had an internal audit function in operation throughout the financial year.	<input type="checkbox"/>	<input type="checkbox"/>
	• The internal audit function operates in terms of an approved internal audit plan.	<input type="checkbox"/>	<input type="checkbox"/>
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.	<input type="checkbox"/>	<input type="checkbox"/>
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	<input type="checkbox"/>	<input type="checkbox"/>
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	<input type="checkbox"/>	<input type="checkbox"/>
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	<input type="checkbox"/>	<input type="checkbox"/>
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used, as set out in section 62(1)(c)(i) of the MFMA.	<input type="checkbox"/>	<input type="checkbox"/>
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	<input type="checkbox"/>	<input type="checkbox"/>

No.	Matter	Y	N
	Follow-up of audit findings		
13.	The prior year audit findings have been substantially addressed.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
14.	SCOPA/Oversight resolutions have been substantially implemented.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Issues relating to the reporting of performance information		
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Ulundi Municipality against its mandate, predetermined objectives, outputs, indicators and targets per section 68 of the MFMA.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Achievement of good practice indicators

37. The following good practices are the drivers of audit results. We have indicated our assessment of the municipality achievement of these good practices, based on the matters included elsewhere in this report.

	Good practice	Y	N
1	Clear trail of supporting documentation that is easily available and provided timely.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
2	Quality of financial statements and related management information.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
3	Timeliness of financial statements and management information.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
4	Availability of key officials during audits.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
5	Development and compliance with risk management and good internal control and governance practices.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
6	Leadership/supervision and monitoring.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

38. Although key personnel were available throughout the audit to render assistance, significant difficulties were experienced with regards to availability of requested information. Further weaknesses were also evident, which indicates that the municipality should take adequate steps to improve the internal controls surrounding audit trails, compliance with risk management, governance and the monitoring of financial reporting in the financial statements and management information.

SIGNIFICANT FINDINGS FROM OUR REVIEW OF THE PERFORMANCE INFORMATION

39. No material findings were identified during our audit.

SIGNIFICANT FINDINGS FROM SPECIFIC FOCUS AREAS

40. No specific focus areas were subject to audit during the year under review.

INFORMATION ON AUDITS CONDUCTED OTHER THAN ON THE FINANCIAL STATEMENTS

Investigations

41. No investigations were conducted during the year under review.

Performance audits

42. No performance audits were conducted during the year under review.

Special audits

43. No special audits were conducted during the year under review.

RATINGS OF DETAILED AUDIT FINDINGS

44. For the purposes of this report, the detailed audit findings included in annexures A and B have been classified as follows:

- Matters to be included in the auditor's report.

These matters should be addressed as a matter of urgency.

- Other important matters – deficiencies that could adversely affect the entity's ability to initiate, record, process and report financial data consistent with the assertions of management on the financial statements and in accordance with the applicable basis of accounting. Unacceptable risk that errors and irregularities may occur that will not be prevented or detected by the internal controls in good time.

These matters should be addressed within the next 12 months.

45. Failure to address matters reported in a particular category may result in the matter being rated as more significant in the next financial year.

APPRECIATION

46. We would like to express our appreciation for the courtesy extended and assistance rendered by the staff of the Ulundi Municipality during the audit.

Yours faithfully

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Audit Committee Chair
Head of internal audit

SUMMARY OF AUDIT FINDINGS

Page no.	Finding	Classification	Control Component	Impact on audit report	In which years was it reported	
					2005/06	2006/07
					Reported in previous years	2007/08
					Administrative matters	
					Other important matters	
					Other responsibilities	
					Other matters	
					Emphasis of qualification	
					Qualification	
					Classification	
					Control Component	
					Finding	
					COMPLIANCE WITH LEGISLATION (NON-AFS)	
15.	Inadequate management of risk	Compliance (Non-AFS)	Control activities	✓	✓	✓
16.	Suppliers not properly accredited	Compliance (Non-AFS)	Control activities	✓	No	
17.	Internal audit function ineffective	Compliance (Non-AFS)	Control environment	✓	Yes	✓
18.	Audit committee not fully functional	Compliance (Non-AFS)	Control environment	✓	Yes	✓
19.	Oversight reports not prepared	Compliance (Non-AFS)	Monitoring of controls	✓	Yes	✓
					CASH AND CASH EQUIVALENTS	
20.	Bank accounts not accounted for	Financial	Control environment	✓	No	
21.	No tender process for banking services	Value for money	Control activities	✓	No	
22.	Uncollected cheque expensed	Financial	Control activities	✓	No	
23.	Unpaid cheque register incomplete	Control	Monitoring of controls	✓	No	
					COMPLIANCE WITH LEGISLATION (NON-AFS)	
24.	Fruitless and wasteful expenditure	Compliance	Control	✓	Yes	✓

Page no.	Finding	Classification	Control Component	Impact on audit report			In which years was it reported
				2005/06	2006/07	2007/08	
							Reported in previous years
							Administrative matters
							Other important matters
							Other responsibilities
							Other matters
							Emphasis of qualification
							Other responsibilities
							Other matters
							Other important matters
							Administrative matters
							Reported in previous years
							In which years was it reported
25.	Approval of the budget and the SDBIP not timeous	(Non-AFS)	activities			✓	No
26.	Creditors not paid timeously	Compliance (Non-AFS)	Control activities			✓	No
28.	Tariff bylaws not updated	Control	Control activities			✓	No
29.	Municipality's website not up to date	Compliance (Non-AFS)	Control activities			✓	No
30.	Municipality's tariff policy insufficient	Compliance (Non-AFS)	Information system and comm.			✓	No
31.	Weaknesses over petty cash	Control	Control activities			✓	No
EMPLOYEE COSTS							
32.	Changes to masterfile report not authorised	Control	Control activities			✓	No
33.	Reconciliation of payroll to financial systems not reviewed	Control	Control activities			✓	No
34.	Skills development levy differences	Financial	Control activities			✓	No
35.	No reconciliations for third party payments	Control	Control activities			✓	No
36.	Unissued cheque register not signed	Control	Control activities			✓	No
37.	Payroll not certified by heads of departments	Control	Control activities			✓	No

Page no.	Finding	Classification	Control Component	Impact on audit report			In which years was it reported
				Other important matters	Administrative matters	Reported in previous years	
38.	Inadequate documentation for other leave	Control	Control activities	✓	No	No	2005/06
39.	Leave approved after leave is taken	Control	Control activities	✓	No	No	2006/07
40.	Medical certificates not on file	Control	Control activities	✓	No	No	2007/08
GENERAL IT CONTROLS							
41.	No rejected transaction listings	Control	Control environment	✓	No	No	
42.	No information technology policy	Control	Information system and comm.	✓	No	No	
INVENTORY							
43.	Inventory difference	Financial	Control activities	✓	No	No	
44.	Inventory not insured	Financial	Control environment	✓	No	No	
45.	Reconciliation of inventory items not performed	Control	Control activities	✓	Yes	✓	✓
46.	Store requisitions not sequentially numbered	Control	Control activities	✓	No	No	
INVESTMENTS							
47.	Quotations not obtained from three banks	Compliance (Non-AFS)	Control activities	✓	No	No	

Page no.	Finding	Classification	Control Component	Impact on audit report		Other important matters	Administrative matters	Reported in previous years	In which years was it reported
				Qualification	Other responsibilities				
OPERATING EXPENDITURE									
48.	GRV 11225 not recorded in the correct period			Financial	Control activities				
PROPERTY, PLANT & EQUIPMENT									
49.	Computers purchased not found in asset register			Financial	Control environment	✓	✓	No	No
50.	No reconciliations between asset register and general ledger		Control	Control activities		✓	✓	No	No
51.	The fixed asset register is not updated for disposals of assets		Control	Control environment		✓	✓	No	No
RECEIVABLES									
52.	SARS overpayment account		Control	Control activities		✓	✓	No	No
53.	Difference between consumer debtors in financial statements and general ledger	Financial	Control environment			✓	✓	No	No
54.	Incorrect classification of consumer deposit	Control	Control activities			✓	✓	No	No
REVENUE									
55.	Electricity distribution losses are not monitored	Control	Control environment			✓	✓	No	No

Page no.	Finding	Classification	Control Component	Impact on audit report			In which years was it reported
				Other responsibilities	Other matters	Other reporting responsibilities	
56.	Rates reconciliations are not reviewed		Control environment			✓	No
TAXES							
57.	Input VAT raised on non-vatable expense		Control activities			✓	No
58.	October 2008 VAT refund incorrectly accounted for	Financial	Control activities			✓	No

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

COMPLIANCE WITH LEGISLATION (NON-AFS)

1. Inadequate management of risk

Audit finding

Contrary to section 62(1)(c)(i) of the MFMA, the municipality has not undertaken a risk assessment for the year under review to assess any risks of fraud.

Furthermore, the risk management policy and fraud prevention plan was not finalised, approved and implemented during the year under review.

Root cause

The potential for material misstatement due to fraud is not explicitly considered in assessing risks to the achievement of financial reporting objectives.

Risk

The absence of adequate processes being identified and implemented to manage possible fraud risks, could result in ease of fraud, manipulation and theft at the municipality.

Recommendation

The performance of risk assessments as well as development and approval of a risk management strategy, including a fraud prevention plan is of paramount importance to ensure that risks are appropriately mitigated to detect, prevent and correct misstatements and weaknesses timeously.

Management response

Risk assessments are considered to be part of the Internal Audit function. The Municipality has experienced various problems associated with the Internal Audit function and as a result has terminated the contract of the previously appointed Internal Auditors and appointed a new service provider, under an emergency appointment to address specific requirements in respect of the 2008/2009 financial year. Requests for tender proposals to fill the vacant Internal Audit Function will be advertised within the second quarter of the 2009/2010 financial year.

Name: J Mhlongo

Date: 26/10/2009

Auditor's response

Management must ensure that the risks affecting the entity have been mitigated to acceptable levels.

2. Suppliers not properly accredited

Audit finding

The municipality did not invite prospective providers to apply for evaluation and listing as an accredited prospective provider, as required by regulation 14(1)(b) of the Municipal Supply Chain Management Regulations, published in General Notice No. 868 of 2005, dated 30 May 2005, issued in terms of section 168 of the MFMA.

Root cause

Policies related to reliable financial reporting are not established and communicated throughout the municipality, and do not have corresponding procedures that result in management directives being carried out.

Risk

The municipality may not be transacting with accredited service providers thus the quality of services/goods may be compromised.

Recommendation

The municipality should build up its service provider database and annually undertake the vetting process.

Management response

Noted, This will be followed up and completed in the financial year

Name: J Mhlongo

Date: 30/10/1009

Auditor's response

Management is urged to ensure that transactions occur with accredited suppliers.

3. Internal audit function ineffective

Audit finding

Section 165 of the MFMA was not adhered to, as evidenced by the following:

- A risk based audit plan and an internal audit programme had not been developed.
- Quarterly reporting to the audit committee was not evident.
- Internal audit reports were not presented to the audit committee for matters pertaining to internal controls and governance.

Root cause

Management has not specified the financial reporting objectives with sufficient clarity and criteria to enable the identification of risks for reliable financial reporting.

Risk

The lack of adequate governance structures is conducive to an environment, which is susceptible to inaccurate reporting, misstatement and fraud.

Recommendation

Management should ensure that an effective internal audit function is implemented to assist in strengthening governance, internal control and the management of risk.

Management response

The municipality has experienced various problems associated with the Internal Audit function and as a result has terminated the contract of the previously appointed Internal Auditors and appointed a new service provider, under an emergency appointment to address specific requirements in respect of the 2008/2009 financial year. Requests for tender proposals to fill the vacant Internal Audit Function will be advertised within the second quarter of the 2009/2010 financial year.

Name: J Mhlongo

Date: 26/10/2009

Auditor's response

Management is urged to support the efficient and effective workings of its internal audit function.

4. Audit Committee is not fully functional

Audit finding

Section 166 of the MFMA was not fully adhered to, as no evidence of advice was provided on matters pertaining to the following:

- Internal financial control and internal audits
- Risk management
- Performance management
- Effective governance
- Performance evaluation
- Matters raised in the prior year audit report

Furthermore, there was no evidence of review of the annual financial statements provided for audit.

Root cause

Management has not specified the financial reporting objectives with sufficient clarity and criteria to enable the identification of risks to reliable financial reporting.

Risk

The lack of effective governance and oversight mechanisms increases the impetus for fraud, errors and misstatements. In addition, management may not be made aware of deficiencies in processes and systems thus impacting on the well-being of the entity and achievement of service delivery objectives.

Recommendation

Management must ensure that all duties are fulfilled by the audit committee to ensure that governance, internal control and management of risk is strengthened.

Management response

The Audit committee is in place, but due to the lack of Internal Audit Reports being made available for review during the past financial year, the committee has only had two meetings:

1. To review and discuss the Internal Audit Findings based on the JSBA Report issued; and
2. To review the draft AFS for June 2009 before these were handed into the Auditor General for Audit.

Name: J Mhlongo

Date: 26/10/2009

Auditor's response

A proper review of the financial statements would have eliminated the numerous errors identified by the auditors, which had to be corrected by management during the course of the audit.

5. Oversight reports not prepared

Audit finding

The following reports relating to oversight on supply chain management (SCM) process were not prepared nor were they made public in terms of section 21A of the MSA:

- A report submitted by the accounting officer to the council within 30 days after the end of the financial year on the implementation of the SCM policy of the municipality.
- Where serious or material problems were experienced in implementation of the SCM policy, a report was immediately submitted to the council on the problems.
- The report submitted by the accounting officer to the mayor, within 10 days after the end of each quarter, on the implementation of the SCM policy of the municipality.
- Oversight reports in terms of section 129(1) of the MFMA.

Root cause

Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning.

Risk

- Critical information that is required for decision making is not submitted timeously.
- SCM policies and practices may not be properly implemented thus causing a breakdown of controls surrounding the SCM processes, resulting in financial loss to the municipality.
- Weaknesses will not be timeously communicated to council to ensure that control measures are put in place in due time.

Recommendation

Controls should be put in place to ensure that reports in terms of regulation 6 of the MFMA are prepared and that these reports are subsequently advertised to ensure community awareness in terms of section 21A of the MSA.

Management response

Noted and acknowledged.

Name: J Mhlongo

Date: 26/10/2009

Auditor's response

Management is urged to take the necessary corrective action to ensure that reports are prepared and submitted timeously to ensure that municipal processes are run efficiently and effectively and that the most appropriate and considered decisions are made.

ANNEXURE B: OTHER IMPORTANT MATTERS

CASH AND CASH EQUIVALENTS

6. Bank accounts not accounted for

Audit finding

The following bank accounts in the name of the municipality have not been accounted for in the financial statements and general ledger:

- The business control account 8612710030007000 - R nil
- The public sector cheque account (MSIG) 62228583888 - R 199,97
- Petrol account 8888886046518000 - R19 949,08
- Petrol account 8888886046520000 - R19 949,08

Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

Risk

Incomplete financial records have been maintained for bank accounts held by the municipality.

Recommendation

These accounts should be investigated and the appropriate action taken to include these accounts in the municipality's financial records to ensure that cash is completely stated.

Management response

Petrol account of R 19 949.08 raised in note 18 Cash and Bank, it appears that the bank have duplicated the petrol accounts.

Name: J Mhlongo

Date: 26/10/2009

Auditor's response

Management should ensure that relevant practices of record keeping, reviews and reconciliations are implemented and undertaken on a monthly basis.

7. No tender process for banking services

Audit finding

There is no evidence that the banking services contract was awarded via a competitive bid and that the contract awarded is not for more than 5 years.

Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

Risk

The municipality may not get the most cost-effective services.

Recommendation

SCM process should be adhered to in order to ensure that the best quality of goods/services is obtained at competitive prices.

Management response

It is acknowledged that the municipality utilises First National Bank (FNB) as the financial institution covering all banking services, including the operating bank account and all investment accounts. The experiences gained and losses incurred with the liquidation of New Republic Bank (NRB), the municipality prefers to stay with FNB.

Tenders / Proposals from other institutions will be obtained in order to confirm that the services received from FNB remain competitive

Name: P Sibiya

Date: 26/10 2009

Auditor's response

Management is urged to ensure that bids are obtained to ensure that competitive banking services are engaged, in order to prevent wastage due to excessive bank charges being incurred.

8. Uncollected cheque expensed

Audit finding

Cheques totalling R19 075, for Councillor Z.P. Dlamuka were processed monthly, however, the cheques were not handed to the councillor for encashment.

Root cause

Policies related to reliable financial reporting are not established and communicated throughout the entity, and do not have corresponding procedures that result in management directives being carried out.

Risk

- This environment lends itself to possible theft and fraud.
- The municipality could suffer financial loss.

Recommendation

- These cheques should be reversed from outstanding cheques to creditors until this matter is resolved.
- Payment should also be made to the councillor electronically to avoid any possibility of theft or fraud.

Management response

The matter has been brought to the attention of Council and the recommendation will be implemented by not later than November 2009.

Name: J Mhlongo

Date: 30/10/2009

Auditor's response

The councillor's services have not been terminated thus the councillor is still entitled to the payments.

9. Unpaid cheque register incomplete

Audit finding

The following unpaid cheques reflected on the June 2009 bank reconciliation could not be found in the unpaid cheque register:

25/05/2009	Pers Loan 001677 001293 090525	300.73
25/06/2009	Pers Loan 001677 001293 090525	300.73
25/06/2009	Inward unpaid – Refer to drawer: ML Masondo	635.02

Root cause

Policies related to reliable financial reporting are not established and communicated throughout the entity, and do not have corresponding procedures that result in management directives being carried out.

Risk

Financial loss to the municipality due to possible misappropriation of unpaid cheques

Recommendation

The unpaid cheque register should be updated and compared to the bank statement and bank reconciliation on a monthly basis to identify that all unpaid cheques have been completely recorded.

Management response

Noted, correspondence to the revenue manager from the CFO will be prepared to ensure that the register is in his custody and it must be submitted to the CFO who will review it as well.

Name: J Mhlongo

Date: 30/10/2009

Auditor's response

Controls and polices should be established to ensure that supervision and review are undertaken.

10. Fruitless and wasteful expenditure

Audit finding

Reports were not submitted to the mayor, the MEC for Local Government and to the Auditor-General with regard to the incurring of fruitless and wasteful expenditure totalling R45 398, as required by section 32(4)(a) of the MFMA.

Root cause

The entity does not identify risks to the achievement of financial reporting objectives.

Risk

Transactions and events may not be reported, as prescribed, thus increasing incidences of fraud, error and misstatements.

Recommendation

Measures should be implemented to ensure that all such spending should be accounted for, disclosed and reported, as prescribed by legislation.

Management response

To be reported to council, the report to be submitted to council will also incorporate the expenditure from 2007/2008 as identified in the 2007/08 Action Plan.

Name: J H Mhlongo

Date: 21/10/09

Auditor's response

Management must ensure that the relevant reporting takes place to enable effective financial reporting and decision-making.

11. Approval of the budget and the SDBIP not timeous

Audit finding

The budget of the municipality was approved on 6 June 2008 and not at least 30 days before the start of the budget year, as required by sections 24(1) and 53(1)(c)(i) of the MFMA.

Furthermore, section 53(1)(c)(i) of the MFMA was not adhered to as the SDBIP was approved on 18 March 2009. There is a difference of nine months in the time period that both policies are meant to be adopted. This is contrary to the 28 day requirement set out in section 53(1)(c)(ii) of the MFMA.

Where delays are experienced in meeting the deadlines above, section 53(2) states that reports must be submitted promptly to the municipal council and the MEC for Finance in the province of any delay in the tabling of the budget and the approval of the SDBIP.

No reports were submitted in this regard.

Root cause

Policies related to reliable financial reporting are not established and communicated throughout the entity, and do not have corresponding procedures that result in management directives being carried out.

Risk

The SDBIP may not be aligned to the budget of the municipality thus impeding on service delivery requirements.

Recommendation

- The budget process plan that is in place should be strictly adhered to. This will ensure that all timelines set, will be met. The budget process plan should be clear in assigning responsibility to people for the performance of specific tasks. Additional monitoring control should be implemented to ensure that all tasks and deadlines set are achieved.
- The budget process plan should be extended to include the SDBIP as the SDBIP is largely dependent on the budget. Monitoring controls mentioned above should also be implemented for this process.

Management response

Audit findings noted, the Budget and Compliance officer will be asked to submit a detailed response to this and advise on controls to be instituted.

Name: P Sibya

Date: 26/10/2009

Auditor's response

A proper timetable should be drawn up linking all the activities to be undertaken, setting out roles and responsibilities and sufficient time allocated to achieve all deliverables.

12. Creditors not paid timeously

Audit finding

The following instances were noted where creditors were not paid within 30 days of receipt of invoice:

Supplier Name	Amount per the general ledger	Invoice Date	Payment Date	Days
AUDITOR GENERAL	70,711.20	2008/11/30	2009/01/28	59
INDWE RISK SERVICES	60,471.07	2008/07/01	2008/08/21	51
INDWE RISK SERVICES	36,936.84	2008/07/01	2008/08/21	51
INDWE RISK SERVICES	7,126.32	2008/07/01	2008/08/21	51
INDWE RISK SERVICES	2,805.26	2008/07/01	2008/08/21	51
INDWE RISK SERVICES	1,850.00	2008/07/01	2008/08/21	51
INDWE RISK SERVICES	247.37	2008/07/01	2008/08/21	51
INDWE RISK SERVICES	22,500.00	2008/07/01	2008/08/21	51
INDWE RISK SERVICES	227,785.09	2008/10/01	2008/11/06	36
INDWE RISK SERVICES	131,922.81	2008/10/01	2008/11/06	36
INDWE RISK SERVICES	29,796.49	2008/10/01	2008/11/06	36
INDWE RISK SERVICES	5,564.04	2008/10/01	2008/11/06	36
INDWE RISK SERVICES	739.47	2008/10/01	2008/11/06	36
SALGA	156,638.60	2008/04/01	2008/08/08	129
CONTOUR TECHNOLOGY (PTY)LTD	18,825.50	2008/10/31	2008/12/05	35
CONTOUR TECHNOLOGY (PTY)LTD	18,481.50	2008/09/30	2008/12/05	66
CONTOUR TECHNOLOGY (PTY)LTD	18,617.00	2008/08/29	2008/12/05	98
CONTOUR TECHNOLOGY (PTY)LTD	14,293.50	2008/03/31	2008/12/05	249
CONTOUR TECHNOLOGY (PTY)LTD	14,742.00	2008/03/31	2008/12/05	249
CONTOUR TECHNOLOGY (PTY)LTD	15,282.00	2008/01/31	2008/12/05	309
CONTOUR TECHNOLOGY (PTY)LTD	16,681.00	2007/12/31	2008/12/05	340
CONLOG SOLUTIONS	139,998.00	2008/11/21	2009/01/28	68
DASA FOLLDLIGHTING	43,550.00	2008/08/11	2008/09/30	50
JAMES HOLLEY CONSULTING CC	26,304.62	2008/10/10	2009/02/26	139
BEKA	40,560.00	2008/11/27	2009/01/28	62

Root cause

Policies related to reliable financial reporting are not established and communicated throughout the entity, and do not have corresponding procedures that result in management directives being carried out.

Risk

- The municipality may incur loss in the form of penalties and interest, as debts are not being settled timeously.
- Smaller contractors may go out of business.

Recommendation

Measures should also be implemented to ensure that debts are settled timeously to prevent the possibility of fruitless and wasteful expenditure.

Management response

Noted.

Name: J Mhlongo

Date: 30/10/2009

Auditor's response

Where payment of creditors cannot be made within 30 days, reasons therefore must be recorded and evidenced by signatures.

13. Tariff bylaws not updated

Audit finding

Tariff bylaws have not been updated to reflect the guidance on the most recent amounts to be considered for consumer deposits, as required by section 75(1) of the MSA.

Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

Risk

The community and municipal staff are not aware of the updated amounts to be paid in respect of consumer deposits, thus resulting in loss to the municipality.

Recommendation

Tariffs should be updated to reflect reasonable consumer deposits to ensure that the municipality does not suffer any financial loss.

Management response

Management will review bylaws in respect to consumer deposits in the next financial year.

Name: NG Zulu

Date: 29/10/2009

Auditor's response

Management is urged to review all tariff bylaws regularly and communicate relevant changes to the public and staff timeously.

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14. Municipality's website not up to date

Audit finding

Contrary to section 75(1) of the MFMA, the municipality has failed to place the following documents on its website:

- a) the annual and adjustments budgets and all budget-related documents;
- b) all budget-related policies;
- c) the annual report;
- d) all performance agreements required in terms of section 57(1)(b) of the Municipal Systems Act;
- e) all service delivery agreements;
- f) all long-term borrowing contracts;
- g) all supply chain management contracts above a prescribed value;
- h) an information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14(2) or (4) during the previous quarter;
- i) contracts to which subsection (1) of section 33 apply, subject to subsection (3) of that section;
- j) public-private partnership agreements referred to in section 120;
- k) all quarterly reports tabled in the council in terms of section 52(d); and
- m) any other applicable legislation, or as may be prescribed.

Root cause

Ongoing monitoring of municipality's website as well as supervisory reviews were not undertaken to enable management to determine whether internal controls over completeness of information on the website is present and functioning.

Risk

- The public will not be kept up to date.
- Potential investors may be lost due to lack of information.

Recommendation

Management should ensure that the website is kept up to date with all relevant information.

Management response

Audit Findings noted, the website will be upgraded

Name: S Khumalo

Date: 26/10/2009

Auditor's response

The municipality should exploit this universal medium to attract potential investors both locally and internationally.

15. Municipality's tariff policy insufficient

Audit finding

The tariff policy that is in place does not differentiate in respect of services, service standards, service providers and other matters between different categories of users, debtors or geographical areas, as required by section 75(2) of the MSA.

Root cause

Policies related to reliable financial reporting are not established and communicated throughout the entity, and do not have corresponding procedures that result in management directives being carried out.

Risk

The municipality's tariff policy will not contain required information to enable efficient and effective service delivery.

Recommendation

The tariff policy should be revised to include the services and different categories of users.

Management response

Noted.

Name: J Mhlongo

Date: 26/10/2009

Auditor's response

Management is urged to ensure that proper reporting takes places to enable effective and efficient service delivery.

16. Weakness over petty cash

Audit finding

The municipality did not exercise effective management over petty cash, as required by SCM regulation 15. This was evidenced by the following:

- Petty cash purchase requisitions are signed by each head of department and submitted to the chief financial officer for final approval, thus there is no monthly report that is prepared by each director to monitor the number of petty cash purchases that has been utilised per month, per department.
- It is also difficult to monitor whether the total amount spent per month exceeds the petty cash limit of R2 000.

Root cause

Control activities that are specified in the SCM policy are not implemented by the municipality to mitigate risks of over expenditure on the petty cash vote.

Risk

Excessive spending may occur out of petty cash which exceeds the monthly limit.

Recommendation

- Management should adhere to the petty cash procedures that are specified in the SCM policy.
- A control register should be maintained by each head of department to be submitted to the chief financial officer at the end of each month for review.
- A monthly report should be drafted by the chief financial officer to consolidate petty cash expenditure that has been authorised for the month for all departments.

Management response

Comments noted, controls on Petty Cash system to be re-visted

Name: *J Mhlongo*

Date: 26/10/2009

Auditor's response

Management's endeavours to execute more control over petty cash management is encouraged to curtail excessive spending.

EMPLOYEE COSTS

17. Changes to masterfile report not authorised

Audit finding

Reports regarding the changes to masterfile data, with specific regards to payroll, are not printed on a monthly basis, reviewed and approved by a senior official.

Root cause

General, hardware and application controls have not been designed to ensure the reliability of the operating system, the accuracy of the data outputs, and the protection of equipment and files.

Risk

- Unauthorised changes to the master file data could be effected and not detected and corrected timely.
- Fictitious persons could be added to the payroll.

Recommendation

All changes to master file report should be printed on a monthly basis, reviewed and approved by an independent senior official.

Management response

Noted, the IT manager will be advised by the CFO that the changes to the masterfile report must be printed monthly and all changes must be authorised by the CFO. A circular advising all staff members will be issued by not later than November 2009.

Name: J Mhlongo

Date: 30/10/2009

Auditor's response

This control measure should be implemented without delay.

18. Reconciliation of payroll to financial systems not reviewed

Audit finding

The monthly reconciliations between the payroll system and the financial system are not reviewed by senior management.

Root cause

- Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.
- Management has not specified the financial reporting objectives with sufficient clarity and criteria to enable the identification of risks to reliable financial reporting.

Risk

- Omissions, errors and misstatements in the capturing of transactions may not be detected and corrected timeously, due to insufficient supervisory checks, internal reviews and reconciliations.
- Inaccurate payments could be made to employees thus resulting in loss to the municipality.

Recommendation

Management must ensure that reconciliations are performed on a monthly basis to reduce the risk of omissions, errors and misstatements not being detected and timeously corrected. Where reconciliations are performed, management must ensure that reviews are performed and signed as evidence thereof.

Management response

All monthly reconciliations of payroll system to financial systems will be reviewed by payroll manager and finally the CFO as from 01 November 2009.

Name: J Mhlongo & S Memela

Date: 30/10/2009

Auditor's response

The absence of reconciliations will impede effective financial management and control.

19. Skills development levy differences

Audit finding

The following difference was noted with regards to the amount of skills development levy (SDL) paid during the year:

	R
Salaries account	23 097 126,64
SDL account	326 786,76
SDL based on 1% of salaries	230 971,23
Difference	R95 815,53

Root cause

Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning.

Risk

The municipality may incur loss due to possible incorrect calculation and payment of SDL expense.

Recommendation

This matter should be investigated and an appropriate action should be taken to reconcile and correct the difference.

Management response

Noted, the matter will be investigated as from 1 November 2009 for corrective action and internal controls / close supervision will be implemented immediately.

Name: J Mhlongo & S Memela

Date: 30/10/2009

Auditor's response

The weakness giving rise to this error should be investigated and rectified urgently.

20. No reconciliations for third party payments

Audit finding

Reconciliations were not performed on a monthly basis to ensure that all third party payments have been made timeously.

Furthermore, a list of cheques printed is compiled, but it is not reconciled to the total deductions, to ensure that cheques printed for all third parties as per the payroll are valid.

Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation

Risk

Omissions, errors and misstatements in the capturing of transactions may not be detected and corrected timeously, due to insufficient supervisory checks, internal reviews and reconciliations.

Recommendation

A reconciliation should be performed on a monthly basis to ensure that all third parties are paid timeously and that errors/omissions are identified and rectified timeously.

Management response

Reconciliations will be done on a monthly basis as from 01 November 2009.

Name: J Mhlongo & S Memela

Date: 30/10/2009

Auditor's response

The absence of reconciliations will impede effective financial management and control. Furthermore, there must be checks and balances to ensure that only valid deductions are allowed.

21. Unissued cheque register not signed

Audit finding

The unissued cheque register was not signed by Councillor R.V. Sibiya every month when he collects the cheque of Councillor Z.P. Dlamuka, neither does the unissued cheque register make provision for the person collecting the cheque to sign.

Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation

Risk

Cheques may be collected and encashed by unauthorised persons thus causing loss to the municipality.

Recommendation

The unissued cheque register should be signed by the recipient when he collects the cheque on behalf of another person and the unissued cheque register should be updated to include a signatory field for the recipient when the cheque is returned.

Management response

Acknowledged, an unissued cheque register will be maintained and updated as recommended.

Name: J Mhlongo & N Zulu

Date: 30/10/2009

Auditor's response

Management should consider making EFT payments directly to the recipients bank account.

22. Payroll not certified by heads of departments

Audit finding

Payroll certifications to verify that the actual employee exists and that he/she should be paid, is only sent to the human resource department, where the Head of the department (Mr DNS Buthelezi) and the Director of Corporate Services (Mr N.G. Zulu) signs the payroll certification as proof of physical existence of the employees, and confirm that they should be paid.

These payroll certifications should preferably be reviewed by the head of each department, as they are knowledgeable of who is working for them, and whether such payments are valid.

Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

Risk

Unauthorised/fictitious employees could be paid thus causing loss to the municipality.

Recommendation

The payroll certification of each department should preferably be performed by persons who are in direct contact with employees to ensure that valid payments are made.

Management response

Noted, all payroll certifications will be reviewed by heads of departments as from 01 November 2009.

Name: J Mhlongo & N Zulu

Date: 01 November 2009

Auditor's response

Management is urged to strengthen the controls over the validation of employees and hours worked, to enable payment to the correct employees.

23. Inadequate documentation for other leave

Audit finding

Adequate supporting documentation for the following leave transactions could not be provided:

Name of employee	Type of leave	Dates utilised	Number of days	Weakness noted
B Mngomezulu	Family responsibility	30 Jun - 4 Jul 08	5	Documentation not sufficient to support leave.
	Special leave	22 Dec 08 - 2 Jan 09	7	No supporting documentation
MJ Nththa	Family responsibility	28 Jul - 1 Aug 08	5	No supporting documentation
	Paternity leave	29 Sep - 3 Oct 08	5	No supporting documentation
SA Mvelase	Compassionate leave	26 Jan - 27 Jan 09	2	No supporting documentation
SD Shongwe	Compassionate leave	28-Nov-08	1	No supporting documentation

Root cause

Directive, preventive and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness, as measured by the extent to which specific control objectives are achieved.

Risk

Employees could take leave without adequate proof of valid supporting documentation being attached to their leave form which may result in loss to the municipality.

Recommendation

Proper controls regarding the taking of other leave should be implemented, for example: Where an employee takes family responsibility leave or other leave the necessary approval should be obtained or proof should be supplied.

Management response

HODs will be reminded and encouraged to approve the above mentioned leave when there are supporting documents.

Name: DNS Buthelezi

Date: 27/10/2009

Auditor's response

In cases where valid supporting evidence cannot be provided for other leave utilised, valid reasons should be provided on leave forms with the supervisor confirming this in writing.

24. Leave approved after leave is taken

Audit finding

The following instances were noted, where annual leave was taken before prior approval by senior management:

Employee	Leave taken	Approval date
MJ Ntetha	27 Mar - 30 Mar	02-Apr-09
	29-Jan-09	05-Feb-09
	01-Dec-08	14-Jan-09
SA Mvelase	27-Mar-09	01-Apr-09
EN Mlambo	26-Aug-08	01-Sep-08
	28 Apr - 30 Apr 09	04-May-09
SD Shongwe	23-Jul-08	29-Jul-08
T Mthethwa	01-Sep-08	02-Sep-08

Root cause

Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning.

Risk

Employees may exceed leave balances, as leave is taken prior to approval, which will result in loss of work days for the municipality.

Recommendation

Management should ensure that leave forms are completed and are approved by the appropriate levels of management before leave is taken, in the case of vacation and study leave.

Management response

HOD will be reminded and also encourage to approve the above mentioned leave when there are supporting documents.

Name: DNS Buthelezi

Date: 27/10/2009

Auditor's response

In cases where applications cannot be completed prior to leave being taken, valid reasons should be provided on leave forms with the supervisor confirming this in writing.

25. Medical certificates not on file

Audit finding

F.C. Zulu (S 000265) utilised sick leave on the following days without a valid medical certificate being attached, recommending the sick leave:

Dates	Number of days
19 Sep - 25 Sep 08	5
24 Feb - 27 Feb 09	4
5 Mar - 6 Apr 09	23

Root cause

Directive, preventive and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness, as measured by the extent to which specific control objectives are achieved.

Risk

Employees may misuse sick leave if they do not have to provide a doctor's certificate for sick leave taken resulting in loss to the municipality.

Recommendation

If more than three days sick leave is taken by any employee, an authorised doctor's certificate should be attached confirming that he/she was sick, and that the doctor recommended the time off to recover.

Management response

HOD will be reminded and also encouraged to approve the above mentioned leave when there are supporting documents.

Name: DNS Buthelezi

Date: 21/10/2009

Auditor's response

Management's implementation of stricter controls over sick leave will prevent loss of work days due to employees abusing sick leave.

GENERAL IT CONTROLS

26. No rejected transaction listings

Audit finding

The financial system is unable to generate a report detailing the rejected transactions nor is it able to generate exception reports as indicated below:

- Duplicate payments
- Duplicate orders
- Duplicate Goods receive vouchers (GRV)
- Invoices dated before order or GRV date
- Payment date before invoice/ GRV date

Root cause

General, hardware and application controls have not been designed to ensure the reliability of the operating system, the accuracy of the data outputs, and the protection of equipment and files.

Risk

The lack of additional controls in respect of monitoring and reviewing listings of rejected transactions and exception listings would result in errors/omissions not being identified and corrected timeously.

Recommendation

The system should have certain parameters set up in order to allow rejected transaction listings and exception reports to be generated. These reports should be reviewed and rejected transactions should be investigated, thereby providing additional control regarding the validity of transactions being processed through the system.

Management response

Noted , points 1 to 5 will be discussed with Dolfin

Name: J Mhlongo

Date: 26/10/2009

Auditor's response

Management should engage the systems developer to programme the required reports, which will enhance the review function.

27. No information technology policy

Audit finding

The municipality does not have an approved and implemented information technology (IT) policy.

Root cause

Information required to execute other control components is not identified, captured and distributed in a form and time frame that enable personnel to carry out their internal control responsibilities.

Risk

No proper policy available to provide guidance with regard to the IT environment and relevant practices and procedures that should be implemented and followed.

Recommendation

An IT policy should be drawn up and implemented.

Management response

The development of the IT policy is in progress, latest draft currently being reviewed.

Name: J Mhlongo

Date: 26/10/2009

Auditor's response

An IT policy is crucial to any organisation to set parameters in the use of the municipality's technological facilities such as, e-mail and internet browsing.

INVENTORY

28. Inventory difference

Audit finding

Upon comparing the lists as per the BIN cards to the inventory listing as per the system at year end, a difference of R11 400 was identified.

Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation

Risk

- Inventory may be properly accounted for.
- Inventory may be issued without proper records thereof.

Recommendation

Relevant reconciliations should be performed between bin cards and the inventory system to ensure that inventory is accurately accounted for at year end.

Management response

Noted, this will be investigated in the 2009/2010 financial year.

Name: J Mhlongo

Date: 30/10/2009

Auditor's response

Management is urged to implement controls to prevent re-occurrence of such omissions.

29. Inventory not insured

Audit finding

Inventory was not covered as part of the insurance contract for the financial year 2008/2009.

Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

Risk

Inventory may be damaged by fire or theft, and the value thereof would then not be recovered, thus causing loss to the municipality.

Recommendation

Inventory should be included in the insurance cover at appropriate values.

Management response

Noted and the insurance contract will be reviewed to ensure that adequate cover is maintained on consumable stores

Name: J Mhlongo

Date: 26/10/2009

Auditor's response

Management is urged to conduct a risk assessment and review its risk strategy.

30. Reconciliation of inventory items not performed

Audit finding

No reconciliation of inventory items is performed on a monthly basis between the inventory control account and the inventory sub-ledger.

Root cause

- Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.
- Management has not specified the financial reporting objectives with sufficient clarity and criteria to enable the identification of risks to reliable financial reporting.

Risk

Omissions, errors and misstatements in the capturing of transactions may not be detected and corrected timeously, due to insufficient supervisory checks, internal reviews and reconciliations.

Recommendation

Management must ensure that reconciliations are performed on a monthly basis to reduce the risk of omissions, errors and misstatements not being detected and timeously corrected. Where reconciliations are performed, management must ensure that reviews are performed and signed as evidence thereof.

Management response

Inventory held by the municipality is only consumable stores.

Monthly reconciliations will be instituted.

Name: J Mhlongo

Date: 26/10/2009

Auditor's response

The absence of reconciliations will impede effective financial management and control.

31. Store requisitions not sequentially numbered

Audit finding

The stores requisitions (store issue vouchers) are not sequentially numbered and each department has a store requisition book, from which the issue vouchers are issued.

Root cause

Policies related to reliable financial reporting are not established and communicated throughout the entity, and do not have corresponding procedures that result in management directives being carried out.

Risk

Issue vouchers maybe be omitted from capturing on BIN cards, and on the system, and thus not accounted for, which will lead to a misstatement of inventory in the municipality's records.

Recommendation

Store requisitions and store issue vouchers should be issued in sequence, and filed in sequence. The process of each department having their own book, should be changed to one requisition book being maintained by SCM, and when an item is needed, a store requisition is obtained from SCM.

Management response

Noted, the stores requisition book will be maintained by SCM with immediate effect and a circular notifying all heads of departments will be issued.

Name: J Mhlongo

Date: 30/10/2009

Auditor's response

Management is urged to review the controls over stores and inventory.

INVESTMENTS

32. Quotations not obtained from three banks

Audit finding

It was noted that quotations were not obtained from three banks before an investment was made. All investments were made with First National Bank without checking whether better rates can be obtained from other banks, thus contravening the municipality's cash and investment policy.

Root cause

Policies related to reliable financial reporting are not established and communicated throughout the entity, and do not have corresponding procedures that result in management directives being carried out.

Risk

The municipality may be investing at less favourable rates, thus foregoing the benefits of higher investment returns.

Recommendation

Quotations from three banks should be obtained before an investment is made and the investment made in terms of the approved policy.

Management response

All investment accounts are held with FNB, attractive interest rates are negotiated with FNB, it is felt that in light of the loss incurred with the liquidation of NRB, the security of these short term investments is more secure if held within the financial institution which controls the main current account of the municipality.

Name: J Mhlongo

Date: 26/10/2009

Auditor's response

Management is urged to ensure that quotations are obtained to ensure that competitive banking services are engaged, in order to prevent the loss of interest income.

OPERATING EXPENDITURE

33. GRV 11225 not recorded in the correct period

Audit finding

GRV 11225 relating to travelling expenditure incurred by a municipal official on the 9th of June 2009 was only issued on the 6th of July 2009, although the expense was incurred in the 2008/2009 financial year.

The expense was thus processed in the accounting records in the next financial year.

Root cause

Pertinent information is not identified, captured, used at all levels of the Municipality and distributed in a form and time frame that support the achievement of financial reporting objectives.

Risk

Information will be captured in incorrect periods resulting in incorrect financial information presented to the users of the financial statements.

Recommendation

This invoice should be accrued for at year-end to ensure that this expense is recognised in the current financial year.

Management response

This will be followed up.

Name: J Mhlongo

Date: 26/10/2009

Auditor's response

Controls over the recording of expenses in the correct period should be strengthened.

PROPERTY, PLANT & EQUIPMENT

34. Computers purchased not found in asset register

Audit finding

Two laptops which were purchased on 24 June 2009 from Ethemba Computers and Consulting CC totalling R23 197,80 could not be located on the fixed asset register.

Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

Risk

Misappropriation of assets could occur as these assets are not properly accounted for.

Recommendation

Management should ensure that a complete record is kept of all assets that belong to the municipality to ensure that completeness of assets is achieved.

Management response

Noted, this matter will be investigated.

Name: J Mhlongo

Date: 30/10/2009

Auditor's response

All assets purchased should be immediately bar-coded and recorded in the asset register.

35. No reconciliations between asset register and general ledger

Audit finding

Reconciliations between the asset register and the general ledger is not performed and reviewed on a monthly basis.

Root cause

- Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.
- Management has not specified the financial reporting objectives with sufficient clarity and criteria to enable the identification of risks to reliable financial reporting.

Risk

Errors/omissions may not be identified and corrected timeously.

Recommendation

Management must ensure that reconciliations are performed on a monthly basis to reduce the risk of omissions, errors and misstatements not being detected and timeously corrected. Where reconciliations are performed, management must ensure that reviews are performed and signed as evidence thereof.

Management response

The entire fixed asset register is currently being re-done by Combined Systems / PWC. The project is still in progress and an alternative FAR has been created for accounting/Auditing purposes for 2008/2009. The FAR is currently only reconciled to the general ledger on an annual basis.

Name: J Mhlongo

Date: 26/10/2009

Auditor's response

The absence of reconciliations will impede effective financial management and control.

35. No reconciliations between asset register and general ledger

Audit finding

Reconciliations between the asset register and the general ledger is not performed and reviewed on a monthly basis.

Root cause

- Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.
- Management has not specified the financial reporting objectives with sufficient clarity and criteria to enable the identification of risks to reliable financial reporting.

Risk

Errors/omissions may not be identified and corrected timeously.

Recommendation

Management must ensure that reconciliations are performed on a monthly basis to reduce the risk of omissions, errors and misstatements not being detected and timeously corrected. Where reconciliations are performed, management must ensure that reviews are performed and signed as evidence thereof.

Management response

The entire fixed asset register is currently being re-done by Combined Systems / PWC. The project is still in progress and an alternative FAR has been created for accounting/Auditing purposes for 2008/2009. The FAR is currently only reconciled to the general ledger on an annual basis.

Name: J Mhlongo

Date: 26/10/2009

Auditor's response

The absence of reconciliations will impede effective financial management and control.

36. The fixed asset register is not updated for disposals of assets

Audit finding

The financial statements indicate a gain on disposal of land, however the fixed asset register has not been updated for such disposal.

Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

Risk

The municipality's record of assets will be incorrect as it will contain assets that no longer belong to the municipality.

Recommendation

The fixed asset register should be updated for all additions and disposals that occur during the financial year.

Management response

All additions are recorded in the FAR

The fixed asset register will be updated when the Municipality finalises its fixed asset register with Combined Systems by June 2010. Disposals were accounted for in the general ledger in 2009.

Name: J Mhlongo

Date: 26/10/2009

Auditor's response

All financial records must be updated on the sale and disposal of assets, ensuring that only assets belonging to the municipality can be disposed off.

RECEIVABLES

37. SARS overpayment account

Audit finding

The SARS overpayment account contained an incorrect entry of R15 037 for petrol.

Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

Risk

Input VAT is claimed on zero-rated expenses which could result in disputes between SARS and the municipality.

Recommendation

Management should review the allocation of expenses to ensure that transactions are accurately processed and correctly classified and that VAT is claimed on valid items only.

Management response

Corrected in 2009/2010

Name: J Mhlongo

Date: 30/10/2009

Auditor's response

Management must ensure that transactions are properly reviewed before processing to prevent re-occurrence of invalid VAT claims in future.

38. Difference between consumer debtors in financial statements and general ledger

Audit finding

The consumer debtors balance per the annual financial statements does not agree to the debtors control account balance in the general ledger, as depicted in the table below. The difference is shown as 'unexplained' difference in the general ledger.

AFS	90,160,937.05
General Ledger	90,172,316.28
Difference	11,379.23

Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

Risk

This may lead to unexplained or incorrect balances in the annual financial statements.

Recommendation

All balances in the annual financial statements must be supported by the relevant documentation. If amounts per the general ledger do not agree to the annual financial statements, a reconciliation must be prepared and all reconciling items must be timeously investigated and corrected.

Management response

Management is aware of the difference as disclosed in the supporting working papers file provided for audit. This will be investigated in the next financial year.

Name: J Mhlongo

Date: 21/10/09

Auditor's response

Management must ensure that controls are implemented to ensure that such differences are timeously identified and corrected.

39. Incorrect classification of consumer deposit

Audit finding

The municipality has incorrectly classified a consumer deposit of R9 140 as a consumer debtor for Isangoyana Water Project, account number 9000103.

Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not carried out appropriately to prevent fraudulent financial data and asset misappropriation.

Risk

Financial information in respect of consumer deposits and debtors will not be fairly presented.

Recommendation

The municipality should implement stricter controls over the recording and review of transactions.

Management response

Noted, the matter will be followed up

Name: J Mhlongo & P Nxumalo

Date: 30/10/2009

Auditor's response

Management must ensure that transactions are properly reviewed before processing in the financial system.

REVENUE

40. Electricity distribution losses are not monitored

Audit finding

Electricity distribution losses are not monitored on a monthly basis.

Root cause

Management and employees are not assigned appropriate levels of authority and responsibility to ensure that they understand how and for what they are accountable to facilitate effective internal control over financial reporting.

Risk

Financial loss due to significant distribution losses on services will not be identified, followed up and corrective action will not be implemented timeously.

Recommendation

Distribution losses should be monitored on a monthly basis and all losses incurred should be identified and investigated timeously.

Management response

Management acknowledges that distribution losses are not monitored on a monthly basis.

Name: J Mhlongo & P Nxumalo

Date: 30/10/2009

Auditor's response

Management must ensure that such controls are implemented to safeguard the municipality against huge losses.

41. Rates reconciliations are not reviewed

Audit finding

Reconciliations are prepared monthly for rates but there is no evidence of review by an independent senior official.

Root cause

- Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.
- Management has not specified the financial reporting objectives with sufficient clarity and criteria to enable the identification of risks to reliable financial reporting.

Risk

Omissions, errors and misstatements in the capturing of transactions may not be detected and corrected timeously, due to insufficient supervisory checks, internal reviews and reconciliations.

Recommendation

The rates reconciliation must be reviewed by a senior member of management on a monthly basis and signed as evidence of their review.

Management response

Acknowledged, rates reconciliations will be reviewed by revenue manager and CFO as from 01 November 2009.

Name: J Mhlongo & E de Klerk

Date: 30/10/2009

Auditor's response

The implementation of reviews over the reconciliation process will be followed up during the next audit.

TAXES

42. Input VAT raised on non-vatable expense

Audit finding

Input VAT of R21 929,40 was raised on membership fees for the South African Local Government Association (SALGA), which is a non-vatable expense. This relates to invoice number SAL 2008/167 for R178 568 dated 1 April 2008 and paid on 8 August 2008.

Root cause

Lack of controls over the review and authorisation of the recording of transactions.

Risk

- The financial records will not be fairly presented in respect of VAT and expenditure in respect of membership fees.
- Liability to SARS for incorrect input claim.

Recommendation

Management should ensure that VAT is correctly allocated and recorded in the accounting records, when payments are processed and approved.

Management response

To be followed up on.

Name: J Mhlongo

Date: 26/10/2009

Auditor's response

Management is urged to implement corrective action to ensure that transactions are accurately processed.

43. October 2008 VAT refund incorrectly accounted for

Audit finding

The VAT refunded from SARS for the month of October 2008 was incorrectly processed into the VAT input account instead of the VAT suspense account.

Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.

Risk

Incorrect entries processed will result in a misstatement of the accounting records.

The VAT returns maybe prepared using inaccurate financial information.

Recommendation

Management should review all refunds from SARS and relevant accounting entries to ensure that the refund is processed into the correct account.

Management response

Acknowledged, the matter will be followed up.

Name: J Mhlongo

Date: 30/10/2009

Auditor's response

Internal controls over the processing of VAT entries should be strengthened to ensure that no errors occur in the processing of information. Management's endeavours to rectify this matter will be followed up during the next audit.